

REVENUE

Budget Summary							
Fund	2002-03 Base Year Doubled	2003-05 Governor	2003-05 Jt. Finance	2003-05 Legislature	2003-05 Act 33	Act 33 Change Over Base Year Doubled	
						Amount	Percent
GPR	\$162,118,400	\$159,710,600	\$161,981,600	\$161,981,600	\$161,981,600	- \$136,800	- 0.1%
PR	16,089,000	16,765,500	18,673,700	18,673,700	18,673,700	2,584,700	16.1
SEG	<u>129,829,600</u>	<u>133,050,200</u>	<u>133,059,800</u>	<u>133,059,800</u>	<u>133,059,800</u>	<u>3,230,200</u>	2.5
TOTAL	\$308,037,000	\$309,526,300	\$313,715,100	\$313,715,100	\$313,715,100	\$5,678,100	1.8%

FTE Position Summary						
Fund	2002-03 Base	2004-05 Governor	2004-05 Jt. Finance	2004-05 Legislature	2004-05 Act 33	Act 33 Change Over 2002-03 Base
GPR	1,000.00	942.50	970.00	970.00	970.00	- 30.00
PR	76.90	76.90	88.10	88.10	88.10	11.20
SEG	<u>135.75</u>	<u>41.25</u>	<u>135.75</u>	<u>135.75</u>	<u>135.75</u>	<u>0.00</u>
TOTAL	1,212.65	1,060.65	1,193.85	1,193.85	1,193.85	- 18.80

Budget Change Items

Tax Administration

1. STANDARD BUDGET ADJUSTMENTS

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
GPR-REV	\$0	\$79,800	\$79,800
GPR	\$5,527,200	- \$933,200	\$4,594,000
PR	676,500	- 56,400	620,100
SEG	<u>989,000</u>	<u>- 54,800</u>	<u>934,200</u>
Total	\$7,192,700	- \$1,044,400	\$6,148,300

Governor: Provide adjustments of \$323,800 PR and \$484,100 SEG in 2003-04, and \$352,700 PR and \$504,900 SEG in 2004-05, and \$2,763,600 GPR annually as standard budget

adjustments. Adjustments are for: (a) turnover reduction (-\$1,243,800 GPR and -\$117,900 SEG annually); (b) removal of noncontinuing funding and positions (-\$1,300,100 GPR, -\$3,400 PR, and -\$11,700 SEG annually); (c) full funding of continuing salaries and fringe benefits (\$4,835,600 GPR, \$269,600 PR, and \$577,100 SEG annually); (d) reclassifications and semiautomatic pay increases (\$29,400 PR and \$9,200 SEG in 2003-04, and \$58,300 PR and \$30,000 SEG in 2004-05); (e) fifth week vacation as cash (\$466,600 GPR, \$28,200 PR, and \$27,400 SEG annually); (f) full funding of lease costs and directed moves (\$5,300 GPR annually); and (g) minor transfers within the same alpha appropriation. In total, changes due to standard budget adjustments would increase funding by \$3,571,500 in 2003-04 and \$3,621,200 in 2004-05.

Joint Finance/Legislature: Delete funding for fifth week as cash (-\$466,600 GPR, -\$28,200 PR, and -\$27,400 SEG annually). Require the agency to lapse to the general fund a total of \$39,900 in each year from those PR and SEG accounts or funds from which these fifth week of vacation as cash payments had been budgeted. Estimate GPR-REV of \$39,900 annually. Specify, however, that the agency is not required to lapse to the general fund any such PR or SEG amount that is from federal funds or that is from another fund source whose lapse to the general fund would be prohibited by state or federal laws or the state or federal constitution. The estimated lapse amount for each year does not include \$15,700 SEG from the lottery fund, because the state constitution requires lottery proceeds to be used for property tax relief.

[Act 33 Section: 9160(3f)]

2. TRANSFERS BETWEEN APPROPRIATIONS

Governor/Legislature: Provide adjustments for the following transfers between appropriations within the same funding source: (a) transfer funding and positions from the Division of Income, Sales, and Excise Tax (ISE) to the Bureau of Human Resources Services in the Division of Enterprise Services (ES) to centralize tax revenue accounting and mail services functions; (b) transfer information technology positions and related funding to the Office of Information Technology Services (OITS) to reflect the centralization of information technology positions and funding in OITS; (c) transfer funding for rent related to the delinquent tax collection program from ISE to the Department's centralized space rental funding appropriation in ES; (d) transfer positions and funding allocated to data capture from tax returns in ISE and the Division of State and Local Finance to the Division of Processing and Customer Service; and (e) realign certain positions and associated funding to reflect transfers between divisions.

3. REVERT MANUFACTURING ASSESSMENT FUNCTION TO LOCAL GOVERNMENTS [LFB Paper 685]

	<u>Governor</u> <u>(Chg. to Base)</u>		<u>Jt. Finance/Leg.</u> <u>(Chg. to Gov)</u>		<u>Net Change</u>	
	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>	<u>Funding</u>	<u>Positions</u>
GPR	-\$4,554,000	- 31.00	\$2,152,600	13.50	-\$2,401,400	- 17.50
PR	0	0.00	2,152,600	13.50	2,152,600	13.50
Total	-\$4,554,000	- 31.00	\$4,305,200	27.00	-\$248,800	- 4.00

Governor: Delete \$2,277,000 and 31.0 positions annually to reflect transfer of responsibility for assessing manufacturing property from the state to local governments, effective with property assessed as of January 1, 2004. Under current law, the Department of Revenue (DOR) determines the assessed value of all manufacturing property in the state for general property tax purposes and reports the value to the municipalities in which the manufacturing property is located. Department staff in the Manufacturing and Telecommunications Assessment Bureau of the Division of State and Local Finance conduct the assessments. The Bureau is responsible for assessing all manufacturing and telephone company property in the state for property tax purposes. Under this provision, the Bureau would continue to assess telephone company property. Although DOR would no longer assess manufacturing property, the Department would be required to establish standards and procedures for assessing such property for inclusion in the property tax assessment manual that is distributed to local assessors. The Bureau has base level funding of \$2,948,600 GPR and 46.00 GPR positions. [See "Shared Revenue and Tax Relief -- Property Taxation."]

Joint Finance/Legislature: Delete provisions that would transfer responsibility for assessment of manufacturing property from the Department of Revenue to local governments and restore that responsibility with the Department. Provide the Department with \$1,076,300 GPR and 13.5 GPR positions, and \$1,076,300 PR and 13.5 PR positions annually in the Bureau of Manufacturing and Telco Assessment for the assessment of manufacturing property. A separate program revenue appropriation would be created to fund the PR manufacturing assessment positions and related costs. DOR would be authorized to annually impose a special charge on each municipality containing manufacturing property to fund the PR manufacturing assessment positions and related expenses. The charge for each municipality would be set at an amount equal to the municipality's equalized value of manufacturing property multiplied by a rate determined by DOR, which would vary from year to year and generate sufficient revenues to offset the Department's budgeted PR costs for the manufacturing assessment function. Municipalities would be prohibited from applying the special charge disproportionately to the owners of manufacturing property relative to the owners of other property.

[Act 33 Sections: 647m and 1580cd]

4. REVENUE COLLECTION POSITIONS

Governor/Legislature: Provide \$685,000 and 8.0 positions

	<u>Funding Positions</u>	
GPR	\$1,370,000	8.00

annually to help improve the Department's revenue collection efforts. Under this provision, 4.0 auditor positions and 4.0 revenue agents would be provided to the Division of Income, Sales, and Excise Tax.

5. CONSOLIDATION OF STATE AGENCY ATTORNEYS UNDER DOA [LFB Paper 105]

	Governor (Chg. to Base)		Jt. Finance/Leg. (Chg. to Gov)		Veto (Chg. to Leg)		Net Change	
	Funding	Positions	Funding	Positions	Funding	Positions	Funding	Positions
GPR	-\$1,101,600	- 14.00	\$1,101,600	14.00	\$0	0.00	\$0	0.00

Governor: Delete \$550,800 and 14.0 positions annually to reflect the consolidation of executive branch attorneys under DOA, effective the later of October 1, 2003, or the first day of the third month beginning after the bill is enacted. Reallocate \$813,300 in 2003-04 and \$1,099,100 in 2004-05 of remaining base level salary and fringe benefits funding that currently supports 9.0 attorney positions to the agency's supplies and services budget to pay for legal services supplied by DOA. The agency's chief counsel position would not be subject to transfer to DOA under the Governor's recommendation. (It should be noted that, in its budget documents, the administration has deleted funding for the entire year of 2003-04, to reflect the net elimination of 5.0 attorney positions through the consolidation. However, under the provisions of the bill, these positions would not be eliminated until October 1, or later, depending on the bill's date of passage. If the GPR reduction amount for 2003-04 were changed to reflect the effective date of the consolidation, the 2003-04 reduction would be \$413,100 rather than \$550,800.)

Joint Finance/Legislature: Delete provision. Direct the Secretary of DOA to delete 31.0 FTE executive branch agency attorney positions, other than attorney positions at the University of Wisconsin System, that are vacant on January 2, 2004, and lapse the associated budgeted non-FED salary and fringe benefits amounts to the general fund in 2003-04 and 2004-05. If fewer than 31.0 FTE agency attorney positions are vacant on January 2, 2004, authorize the Secretary of DOA to delete sufficient additional state agency attorney positions, other than at the University of Wisconsin System, to ensure the elimination of a total of 31.0 FTE state agency attorney positions. The additional fiscal effect of this position deletion requirement is reflected under "Administration -- Transfers to the Department."

Veto by Governor [D-2]: Delete all references to the word attorney, so that the Secretary of DOA must eliminate 31.0 positions that are vacant as of January 2, 2004. Delete the exemption of the University of Wisconsin System, so that the only executive branch agencies that would be exempted for the position reductions are the Department of Employee Trust Funds and the Investment Board.

[Act 33 Section: 9101(9x)]

[Act 33 Vetoed Section: 9101(9x)]

6. BUREAU OF EQUALIZATION CONSOLIDATION

Funding Positions		
GPR	- \$1,065,600	- 7.00

Governor/Legislature: Delete \$532,800 and 7.0 positions annually to reflect consolidating the seven regional offices of the Bureau of Equalization down to six. The Department indicates that it would eliminate a regional office and allocate its responsibilities to the remaining six regional offices. The Bureau of Equalization in the Division of State and Local Finance is responsible for establishing equalized property values for towns, cities, and villages in the state. The equalized values are used to allocate county and school district property taxes among taxing jurisdictions and to distribute state aid and shared revenues to local jurisdictions. Currently, the Bureau operates out of seven regional offices and a central office in Madison. The Bureau has base level funding of \$4,440,200 GPR, 73.90 GPR positions, and \$1,264,800 PR.

7. ALCOHOL AND TOBACCO LAW ENFORCEMENT AND POSITION REDUCTION

Funding Positions		
GPR	- \$513,000	- 3.00

Governor: Delete \$256,500 and 3.0 positions annually in the Alcohol and Tobacco Enforcement Section (ATES) of the Division of Income, Sales, and Excise Taxes. ATES provides statewide enforcement of Wisconsin's alcohol beverage, cigarette, tobacco product, and controlled substance tax laws. ATES activities include inspection of licensed premises, investigations, public speaking and training, and customer service. The Section consists of 13.0 GPR agent positions.

Joint Finance/Legislature: Include provision. In addition, authorize DOR to enforce certain gambling laws relating to commercial gambling, the use of premises for commercial gambling, and dealing in gambling devices that involved not more than five video gambling machines on premises for which a Class "B" or "Class B" license or permit has been issued under Chapter 125 of the statutes (for retail sales of alcoholic beverages). Provide that no law enforcement officer, other than a law enforcement officer who is a special agent of DOR, could investigate violations of, or otherwise enforce gambling laws relating to, commercial gambling, the use of premises for commercial gambling, and dealing in gambling devices that involves not more than five video gambling machines on premises for which a Class "B" or "Class B" license or permit has been issued. Department of Justice authority to enforce gambling laws relating to commercial gambling and the use of premises for commercial gambling that involves not more than five video gambling machines on premises for which a Class "B" or "Class B" license or permit has been issued would be repealed. If a DOR special agent had reasonable grounds to believe that the person was violating or had violated these gambling laws, the special agent would be required to cause the person to be arrested and the documents and reports pertaining to the arrest to be delivered to the chief of police or sheriff in the jurisdiction in which the arrest was made.

[Act 33 Sections: 1623g thru 1623r, 2043z, 2099f thru 2099v, and 2120m]

8. EXPANDING E-FILING

GPR	- \$420,000
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Governor/Legislature: Delete \$210,000 annually to reflect reduced processing and customer service costs from expanding the use of e-filing by state taxpayers.

**9. BUREAU OF HUMAN RESOURCE SERVICES
STAFFING REDUCTION**

Funding Positions		
GPR	- \$406,400	- 2.50

Governor/Legislature: Delete \$203,200 and 2.50 positions annually from the Human Resource Services Bureau in the Division of Enterprise Services. The Human Resource Services Bureau provides human resource services including operation of the Department's programs for affirmative action, employment relations, compensation, personnel staffing and recruitment, payroll management, and training. The Bureau has base level funding of \$862,900 GPR, 12.95 GPR positions, \$38,100 PR, 0.55 PR position, \$146,600 SEG, and 2.25 SEG positions.

**10. INCOME, SALES, AND EXCISE TAX ADMINISTRATION
REDUCTION**

Funding Positions		
GPR	- \$330,400	- 3.00

Governor/Legislature: Delete \$165,200 and 3.0 positions annually to reduce administrative staff in the Division of Income, Sales, and Excise Tax. The ISE division is responsible for administering the state individual income, employee withholding, corporate income/franchise, state and county sales and use, estate, excise, recycling, and other state tax programs. The Division consists of the Audit Bureau, Compliance Bureau, and an administrative staff. Base level staffing for ISE administration is \$4,435,000 GPR, 42.9 GPR positions, and \$262,000 PR.

11. INTEGRATED TAX SYSTEM FUNDING REDUCTION

GPR	- \$300,000
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Governor/Legislature: Delete \$150,000 annually in funding for development of the integrated tax system (ITS). The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade, and reorganization of the Department's tax administration personnel, activities, processes, and systems into functional components. The Department is currently in the process of fully implementing components of the system. ITS has base level funding of \$4,871,600 GPR and \$1,097,000 PR.

12. OFFICE OF PUBLIC AFFAIRS DIRECTOR

Funding Positions		
GPR	- \$214,400	- 1.00

Governor/Legislature: Delete \$107,200 and 1.0 position annually to eliminate the director of the Office of Public Affairs position in the Office of the Secretary of Revenue.

13. DELETE LOCAL FINANCIAL ASSISTANCE AUDITOR

Funding Positions		
GPR	- \$140,000	- 1.00

Governor/Legislature: Delete \$70,000 and 1.0 position annually to eliminate an auditor position in the Bureau of Local Financial Assistance (LFA) in the Division of State and Local Finance. LFA is responsible for determining and distributing property tax relief, shared revenues and other local aids, and for certifying school district and vocational school equalized values that are used to apportion property taxes and general aids to education. The Bureau has base level funding of \$753,400 GPR, 9.25 GPR positions, \$40,300 PR, \$149,700 SEG, and 2.75 SEG positions.

14. FINANCIAL MANAGEMENT SERVICES BUREAU STAFF REDUCTION

Funding Positions		
GPR	- \$137,600	- 2.00

Governor/Legislature: Delete \$68,800 and 2.00 positions annually in the Financial Management Services Bureau in the Division of Enterprise Services. The Financial Management Services Bureau provides administrative and consulting services in the functional areas of accounting, purchasing, facilities, fleet, fixed assets, and insurance, records, and forms management. The Bureau has base level funding of \$1,839,300 GPR, 31.10 GPR positions, \$629,600 PR, 3.90 PR positions, \$451,600 SEG, and 7.50 SEG positions.

15. DIVISION OF STATE AND LOCAL FINANCE ADMINISTRATION

Funding Positions		
GPR	- \$122,000	- 1.00

Governor/Legislature: Delete \$61,000 and 1.0 position annually to eliminate a budget analyst position in the Division of State and Local Finance. The Division of State and Local Finance (SLF) is responsible for establishing the state's equalized property values; assessing all manufacturing and telecommunication company property for property tax purposes; assessing taxes on utilities, railroads, airlines, mining, and other special properties; and providing financial management and technical assistance to municipal and county governments. The Division also administers state shared revenue, property tax relief payments for municipal services, and the lottery credit program and also provides property assessment administration and certification of assessment personnel. SLF consists of the Assessment Practices Bureau, Equalization Bureau, Local Financial Assistance Bureau, Manufacturing and Telecommunications Assessment Bureau, and the Utility and Special Taxes Bureau. Base level funding for the Division is \$9,662,000 GPR, 146.05 GPR positions, \$769,300 PR, 1.50 PR positions, \$412,500 SEG, and 5.25 SEG positions.

16. COUNTY SALES TAX ADMINISTRATION [LFB Paper 651]

GPR-REV	\$349,000
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Joint Finance/Legislature: Reestimate the lapse from the county sales tax administration appropriation to be \$939,700 in 2003-04, and \$1,098,900 in 2004-05. This represents an increase of \$94,900 in 2003-04, and \$254,100 in 2004-05, over the amounts included in Senate Bill 44.

Wisconsin counties can impose a 0.5% sales tax on the same goods and services that are subject to the state sales tax. The county sales tax is attached to the state sales tax in that the county tax is administered, enforced, and collected by DOR. DOR retains 1.75% of the county taxes it collects in a program revenue appropriation to cover administrative costs. The year-end unencumbered balance in the appropriation is lapsed to the general fund. Currently, 57 counties impose the tax.

17. DISTRIBUTION OF MEDICARE INFORMATION

GPR	- \$50,000
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Joint Finance/Legislature: Delete \$25,000 annually from the Department's collection of taxes general program operations appropriation and statutory provisions that require the Department to distribute, to individuals who are 65 or older with household income no more than the maximum for claiming the homestead tax credit, enrollment cards and other materials explaining a program (Partnercare) under which a physician voluntarily agrees to accept assignment of a Medicare Part B enrollee's benefits for reimbursement for the provision of authorized medical or other health services, and to not require payment in excess of the authorized Medicare Part B amount. The requirement that the Wisconsin State Medical Society provide the Department of Revenue with the enrollment cards and explanatory materials would be deleted. In addition, the requirement that the Department of Revenue submit an annual report to the Legislature concerning the number and location of individuals to whom the enrollment cards are distributed would be eliminated.

[Act 33 Sections: 1583g, 2061s, 2521m, 2551h, 2554k, and 2574h]

18. BUSINESS TAX REGISTRATION ADMINISTRATION [LFB Paper 650]

	Funding	Positions
PR	- \$188,000	- 2.30

Joint Finance/Legislature: Delete 2.30 positions and expenditure authority of \$94,000 annually from the business tax administration appropriation.

Businesses are required to obtain a business tax registration certificate from the Department for certain licenses, permits, and certificates related to sales, withholding, fuel, and excise taxes. Businesses pay a basic registration fee of \$20, a renewal fee of \$10, and, in certain cases, a supplemental fee based on the type of permit, license, or certificate required. Fees are placed in a program revenue appropriation used to fund administration of the business tax registration system. The appropriation has base level funding of \$1,478,800 and 22.75 positions.

Lottery Administration

1. LOTTERY SALES PROJECTIONS [LFB Paper 661]

Governor/Legislature: Estimate lottery sales at \$417.2 million in 2003-04 and \$418.0 million in 2004-05. The following table shows these estimates, as well as 2001-02 actual lottery sales and 2002-03 projected sales. (For the purposes of certifying the amount available for the 2002(03) lottery and gaming property tax credit, DOA and the Joint Committee on Finance adopted, in October, 2002, the DOR 2002-03 lottery sales estimate of \$412.7 million.)

Lottery Sales Projections (\$ in Millions)

<u>Game Type</u>	<u>Actual 2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>Percent Change from 2002-03</u>	<u>2004-05</u>	<u>Percent Change from 2003-04</u>
Scratch	\$233.6	\$238.4	\$243.3	2.0%	\$244.5	0.5%
Pull-tab	4.6	4.6	4.6	0.0	4.6	0.0
On-line	<u>189.3</u>	<u>169.7</u>	<u>169.3</u>	-0.2	<u>168.9</u>	-0.2
Total	\$427.5	\$412.7	\$417.2	1.1%	\$418.0	0.2%

The 2003-05 estimated sales are identical to those made by DOR in the Department's 2003-05 budget request and are based on sales models utilized by DOR to estimate both on-line and instant ticket games. The projected sales directly affect appropriation levels for retailer compensation and lottery vendor fees. The effects of these sales and expenditure estimates are shown in the lottery fund condition statement (see Item #4 below).

2. SUM SUFFICIENT APPROPRIATION REESTIMATES FOR RETAILER COMPENSATION AND VENDOR FEES [LFB Paper 661]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	\$2,231,600	\$64,400	\$2,296,000

Governor: Provide \$1,059,700 in 2003-04 and \$1,171,900 in 2004-05 to reestimate lottery sum sufficient appropriations for retailer compensation and vendor fees, as follows.

Retailer Compensation. Provide \$1,035,700 annually to adjust base level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2003-05 biennium.

Basic retailer compensation rates under current law are 5.5% for online ticket sales and

6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales as incentive payments to retailers (estimated at \$4.1 million in 2003-04 and \$4.2 million in 2004-05, under the bill). Base level funding of \$28,352,000, established under 2001 Wisconsin Act 16, was based on estimated lottery sales of \$402.9 million in 2002-03. The Governor's recommended increases to retailer compensation funding are based on lottery sales projections of \$417.2 million in 2003-04 and \$418.0 million in 2004-05. Based on these projections, the amount provided in 2004-05 should be modified, as estimated sales in that year would require \$1,100,100 for retailer compensation, or \$64,400 more than the \$1,035,700 provided.

Vendor Fees. Provide \$24,000 in 2003-04 and \$136,200 in 2004-05 to adjust funding for vendor fees to reflect projected lottery sales in the 2003-05 biennium. Base level funding for vendor fees is \$12,790,500.

Vendor fees are paid on major procurement contracts for the provision of data processing services relating to on-line and scratch ticket lottery games. The fees are calculated on the basis of a formula containing both fixed costs and a percentage of on-line and scratch ticket sales. Under the bill, vendor fees would total 3.1% of on-line and scratch ticket sales in the 2003-05 biennium.

Joint Finance/Legislature: Provide \$64,400 in 2004-05 to reestimate the retailer compensation sum sufficient appropriation to reflect 2004-05 sales of \$418.0 million.

3. PRIVATIZATION OF LOTTERY OPERATIONS [LFB Paper 660]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	- 94.50	94.50	0.00

Governor: Delete 94.5 positions in 2004-05 relating to the operation of the state lottery and authorize the lottery division administrator to determine whether any lottery functions, other than financial auditing services and procurement functions relating to the lottery, should be performed by one or more persons under contract with DOA. Shift \$4,921,200 budgeted in 2004-05 for salaries, fringe benefits and supplies and services to unallotted reserve for possible use to support such contracts. (A total of \$122,800 of this shifted funding is erroneously budgeted as an aids to individuals and organizations payment.) Under current law, the division administrator may determine whether lottery functions should be performed by DOR employees or by one or more persons under contract with DOA, except that no contract: (a) may provide for the entire management or operation of the state lottery by any private person; or (b) is permitted for financial auditing and security monitoring services.

Repeal a current law provision that DOA require separate bids or competitive sealed proposals for instant lottery ticket services and supplies and for online services and supplies.

Authorize DOR to request the Governor to create a full-time equivalent position, or a portion of a position, funded from gross lottery revenues to perform state lottery-related services that are not performed by one or more persons under contract with DOA. Upon receiving the request, authorize the Governor to change the number of such SEG-funded full-time equivalent positions, as follows: (a) the Governor may approve a different authorized level of positions than is requested; (b) if the Governor proposes to change the number of authorized full-time equivalent positions, the Governor must notify the Joint Committee on Finance in writing of this proposed action; (c) if the Co-chairs of the Committee do not notify the Governor within 14 working days of the notification that the Committee has scheduled a meeting to review the proposed action, the proposed position changes may be made; and (d) if, within the 14 working day period, the Co-chairs notify the Governor that the Committee has scheduled a meeting to review the proposed action, the position changes may then be made only upon the approval of the Committee. Under current law, SEG-funded positions may be authorized only under the following procedures: (a) by law or in budget determinations; and (b) by the Joint Committee on Finance, acting under s. 13.101(2) of the statutes.

Base funding for the lottery is \$62,831,200, with 109.5 positions. Under the bill, the lottery would be provided \$64,142,700 in 2003-04 and \$64,254,900 in 2004-05. The elimination of 94.5 positions would leave 15.0 positions. The Governor indicates, in supporting documents relating to the budget, that the remaining positions would be used for contract negotiation, compliance and auditing. The Governor also indicates that bids for the operation of the lottery would be completed and evaluated before the end of 2003-04 and that, if the state operation of the lottery remains the most cost effective means of program delivery, the lottery positions could be restored under the provisions described above.

Joint Finance/Legislature: Delete provision except for the elimination of the requirement for separate bids or competitive sealed proposals for instant lottery ticket services and supplies and for online services and supplies.

Subject to approval by the Secretary of Revenue, authorize the lottery administrator to determine whether lottery functions shall be performed by DOR employees or by one or more persons under contract with DOA, except that no contract may provide for the entire management of the lottery or for the entire operation of the lottery by any private person, unless approved by the Joint Committee on Finance under s. 13.10 of the statutes.

For approval to proceed on a contract to provide for the entire management of the lottery or for the entire operation of the lottery by any private person, require DOR and DOA to jointly submit to the Joint Committee on Finance a lottery privatization evaluation describing: (a) what functions would be contracted; (b) what management authority the vendor would have with respect to lottery advertising, prize payout levels, and any functions the state would perform, if the contract were approved; (c) how a management or operations vendor would interact with other lottery vendors; (d) whether management bids would require some form of profit sharing and, if so, a description of the profit-sharing mechanism; and (e) a transition plan to ensure the successful conversion of the lottery to new management, including a schedule for phasing out

state positions and a rationale for the number and classification of state positions that would be retained.

Veto by the Governor [E-3]: Delete provisions except for the repeal of the requirement for separate bids or competitive sealed proposals for instant lottery ticket services and supplies and for online services and supplies. As a result of the veto, current law with respect to privatization of the lottery is maintained. Under current law, the division administrator may determine whether lottery functions should be performed by DOR employees or by one or more persons under contract with DOA, except that no contract may provide for the entire management or operation of the state lottery by any private person.

[Act 33 Section: 2631]

[Act 33 Vetoed Sections: 2630g, 2630h, and 2631]

4. LOTTERY FUND CONDITION STATEMENT [LFB Paper 661]

Governor: The total revenue available for tax relief, minus a statutory reserve (2% of gross revenue) and the amounts appropriated for the farmland tax relief credit and lottery and gaming credit late applications payments, determines the amount available for the lottery and gaming tax credit. The bill would appropriate \$101,900,000 in 2003-04 and \$101,000,000 in 2004-05 for the lottery and gaming tax credit, however, the revenues and expenditures under the bill, with certain corrections, would support credits of \$101,730,900 in 2003-04 and \$100,812,900 in 2004-05. The corrections relate to two items: (a) retailer compensation in 2004-05 would need to be increased by \$64,400 to reflect higher ticket sales estimates in 2004-05; and (b) no funding for the lottery and gaming credit certification was appropriated in 2004-05 in the bill, but supporting documents indicate that \$960,000 was intended to be appropriated.

Joint Finance/Legislature: Reestimate the opening balance of the lottery fund on July 1, 2003, from \$8,256,300 to \$16,871,100, based on: (a) a reestimate of 2002-03 sales from \$412.7 million to \$431.6 million; (b) modified expenditure amounts for prizes, retailer compensation and vendor fees in 2002-03, based on the new sales estimate; and (c) reestimated lottery and gaming tax credits, including payments for late applications, based on actual 2002-03 expenditure data.

Modify the retailer compensation appropriation in 2004-05 by \$64,400 to increase funding to properly reflect estimated ticket sales.

Reestimate interest earnings for 2003-04 and 2004-05, based on projected interest rates for the 2003-05 biennium. Under the bill as introduced, interest earnings were estimated at \$1.4 million in 2003-04 and \$1.5 million in 2004-05. Reestimated interest earnings would total \$1.0 million in 2003-04 and \$1.3 million in 2004-05.

Reestimate gaming-related revenue in 2003-04 and 2004-05 to \$1.0 million annually. Under the bill as introduced, gaming-related revenue was projected to increase to \$1.3 million annually in the 2003-05 biennium.

Delete \$15,700 SEG annually to reflect the deletion of funding for the fifth week of vacation as cash.

Finally, make an adjustment to reflect the repeal of a sum sufficient appropriation for the local costs relating to lottery and gaming credit certification [see "Shared Revenue and Tax Relief -- Property Tax Credits"].

The changes described above result in revised amounts that would be available for the lottery and gaming tax credit. The amounts under the bill (\$101.7 million in 2003-04 and \$100.8 million in 2004-05) would be modified to \$109.7 million in 2003-04 and \$101.3 million in 2004-05. The following fund condition statement reflects these adjustments.

Lottery Fund Condition Statement Act 33

	<u>2003-04</u>	<u>2004-05</u>
Fiscal Year Opening Balance	\$16,871,100	\$8,346,000
Operating Revenues		
Ticket Sales	\$417,198,100	\$418,049,000
Retailer Fees and Miscellaneous	<u>100,600</u>	<u>100,600</u>
Gross Revenues	\$417,298,700	\$418,149,600
Expenditures		
Prizes	\$238,113,600	\$238,701,200
Retailer Compensation	29,387,700	29,452,100
General Program Operations	21,924,800	21,924,800
Vendor Payments	12,814,500	12,926,700
Appropriation to DOJ	299,200	302,100
Appropriation to DOR	274,300	276,300
Program Reserves	<u>242,500</u>	<u>379,600</u>
Total Expenditures	\$303,056,600	\$303,962,800
Net Proceeds	\$114,242,100	\$114,186,800
Interest Earnings	\$1,045,000	\$1,290,000
Gaming-Related Revenue	\$1,000,000	\$1,000,000
Total Available for Tax Relief *	\$133,158,200	\$124,822,800
Appropriations for Tax Relief		
Lottery and Gaming Tax Credit	\$109,662,200	\$101,309,800
Farmland Tax Relief Credit	15,000,000	15,000,000
Lottery and Gaming Credit: Late Applications	<u>150,000</u>	<u>150,000</u>
Total Appropriations for Tax Relief	\$124,812,200	\$116,459,800
Gross Closing Balance	\$8,346,000	\$8,363,000
Reserve (2% of Gross Revenues)	\$8,346,000	\$8,363,000
Net Closing Balance	\$0	\$0

*Opening balance, net proceeds, interest earnings and gaming-related revenue.

[Act 33 Section: 284]